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TAGS: EAGR ECON EFIN IV
SUBJECT: NEW COCOA SEASON: WHAT'S CHANGED, WHAT HASN'T, WHAT MIGHT

REF: (A) 2008 ABIDJAN 657 (B) 2008 ABIDJAN 403
(C) 2008 ABIDJAN 893 (D) ABIDJAN 401

Classified By: POL/ECON Chief for reasons 1.4 (b) and (d)

¶1. (U) Summary. October 1 marked the official start of Cote d'Ivoire's 2009-2010 cocoa season. Experts expect this year's output to be the same as or somewhat less than last year's. In keeping with recommendations of the international financial institutions (IFIs), the Cocoa and Coffee Sector Management Committee lowered taxes on cocoa for the season. Nevertheless, the Committee, which has been playing a care-taker management role for the past year (ref A), followed past practice by setting an "indicative" price. On October 15, the Cocoa and Coffee Sector Reform Committee submitted to President Gbagbo its recommendations on restructuring the cocoa sector, which we are told may advocate for an expanded government role. End summary.

¶2. (U) October 1 is the official date marking a new cocoa harvest cycle. While cocoa beans are harvested year-round, the vast majority are harvested in the six-month period beginning October 1.

¶3. (U) In the 2008-2009 season Cote d'Ivoire produced approximately 1.2 million metric tons of cocoa, a decrease of 14 percent from the previous year. According to press reports, experts believe Cote d'Ivoire's 2009-2010 crop will probably not exceed last year's. The sector continues to suffer from neglect, with productivity and quality declining each year. Supply is further diminished as farmers switch to less labor-intensive and more lucrative crops, such as rubber or palm oil.

¶4. (U) In keeping with IFI recommendations, the Management Committee announced a reduction in cocoa taxes for this season. The cocoa export tax (known as the "DUS," or "droit unique de sortie") is now CFA 210 (USD 0.48) per kilo, down from CFA 220 (USD 0.50) per kilo. Additionally, the Management Committee reduced the tax used to finance cocoa agencies, revenue that in theory should be invested in the sector: last season the tax was 10 percent of the price; this year it is 5 percent. One of the "triggers" of the GOCI's Enhanced Heavily Indebted Poor Countries (HIPC) program is a reduction of total cocoa taxes to 22 percent of the CIF (cost, insurance, and freight) price. In the 2008-2009 season the overall rate was approximately 32 percent. The IFIs believe a decrease in the tax burden will increase farmer income and help address Cote d'Ivoire's 49 percent poverty rate.

¶5. (SBU) In one of the rituals preserved from the days in which the GOCI fixed cocoa prices, the Management Committee--established in September 2008 to fill the void created by the imprisonment of key cocoa officials (ref B)--announced an "indicative" farmgate price for cocoa beans. The announced price is CFA 950 (USD 2.16) per kilo--a record high. Last year the indicative price was CFA 700 per kilo. As noted in ref C, the reasoning behind the establishment of an "indicative" price is supposedly to send a signal to farmers regarding the price they should use as a basis for bargaining with buyers in the field. Yet the Management

Committee has no authority to enforce the "indicative price." The actual price is set in thousands of individual transactions between buyers and farmers in the field. In most cases, given their limited financial means and their inability to store beans for extended periods, farmers have very little bargaining power. In fact, press reports indicate that the average price paid at the farmgate in the last 10 days of September was only CFA 560. One might interpret the establishment of a high indicative price as an acknowledgment that this year's crop may be smaller than last year's. (Demand for cocoa generally grows rather steadily, tracking world economic growth very closely.) But the high price is likely the result of political factors, as the country awaits presidential elections. By setting a high indicative price, the GOCI seems to be encouraging farmers to believe that they deserve a higher price--if only buyers would pay more.

¶6. (C) On October 15 the Reform Committee, whose members were named April 30 (ref D), submitted to President Gbagbo its proposals on cocoa and coffee sector reform. At Gbagbo's direction, the Committee gave the document to World Bank staff for review and comment prior to submitting it to the head of state. Although we have not seen the "confidential" document, World Bank country director Madani Tall recently told the Ambassador that the plan he reviewed was a throwback to the days of centrally controlled sectors. Tall hoped to convince the GOCI to modernize its approach and incorporate more market principles into their reform proposals. Embassy is not sure whether the plan given to Gbagbo on October 15 differs markedly from the one World Bank staff saw, but we suspect it still calls for a much-expanded role for the GOCI or for a government-regulated private monopoly that could pre-sell much of the harvest each year and guarantee farmers a set price each season. The Reform Committee Chair, Geraldine Odehouri, was quoted in the local press as saying "pursuant to the head of state's recommendations, the farmer is at the heart of this reform."

7.(SBU) As noted in ref D, farmers generally believe an increase in government involvement is needed, and do not support further "liberalization" of the sector. This perspective stems, in large part, from the fact that most cocoa producers in remote areas are unable to transport their product to market and are obliged to sell to Lebanese truck operators who, for a variety of reasons, generally do not pay farmers the indicative price set by the government. Many cocoa farmers do not understand the dynamics of the cocoa market, but they do know that their income is (in real terms) lower than it used to be, and they believe the GOCI should be responsible for ensuring they get higher, more stable prices.

¶8. (SBU) Comment. The Management Committee's change of the cocoa tax structure is the most recent evidence that the HIPC program has been effective in influencing GOCI policy. Yet it is unclear to what extent farmers vis-a-vis other market participants will benefit from the lower taxes. Nevertheless, lowering taxes in an election year is not an exceptionally difficult step, and the Gbagbo regime probably bears some responsibility for the Management Committee's establishment of a record-high indicative price.

¶9. (SBU) Any serious reform of the cocoa sector will impact revenue currently being enjoyed by Gbagbo supporters. It is therefore unlikely that the president will push hard for potentially painful reforms to be carried out until the presidential election is over. This may not be difficult. The Reform Committee's original deadline for submitting its report was July 30. But in a pattern well known to Ivorians, submission of the report--only one step in the reform process--took place almost three months late. Still, as with elections, the wait will be worthwhile if it results in a better system for managing the cocoa sector.

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